

## IBA MISSION

The mission of International Bank of Asia is to expand and diversify its full range of retail financial services in Hong Kong and the Asia-Pacific, leverage on the Group's strengths, achieve a proper and prudent return on shareholders' funds, enhance the quality and efficiency of services for clients, ensure a rewarding career for employees, and serve the communities in which it operates.

## STATEMENT OF IBA PRINCIPLES

- Integrity:** strictly adhering to professional and moral values.
- Diversification:** developing diversified products and services, sources of revenue, and portfolio in order to increase profit and control risk.
- Quality:** offering superior customer service to achieve excellence.
- Control:** exercising control over operating expenses and credit exposure.
- Prudence:** using good judgment to safeguard the shareholders' and depositors' funds.
- Productivity:** achieving the highest level of efficiency in providing service and executing transactions.
- Profitability:** managing resources to achieve a satisfactory return on investment.
- Communication:** communicating effectively and efficiently with staff, management, customers, investors and the community.
- Innovation:** developing ideas which will enhance the Bank's performance.
- Loyalty:** being faithful to the Bank, colleagues, customers and shareholders.

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## FIVE YEAR FINANCIAL SUMMARY

In 1999, International Bank of Asia Group achieved a profit of HK\$24 million. The return on average assets was 0.10% and return on average equity was 0.72%. During the year current, fixed and other deposits of customers were increased by 2% to HK\$18.9 billion. Loans and advances were reduced by 15% to HK\$13.5 billion. Total assets (including liabilities of customers for engagements) were HK\$24.1 billion. The Group had total capital funds of HK\$3.3 billion, and a capital adequacy ratio of 22.38%.

	1999	1998	1997	1996	1995
<b>Profit and Loss Account (HK\$ Million)</b>					
Operating Profit after Taxation	24	82	400	363	307
Profit Attributable to Shareholders	24	82	400	363	307
<b>Consolidated Balance Sheet (HK\$ Million)</b>					
Shareholders' Funds	3,274	3,309	2,495	2,259	1,557
Total Assets (includes liabilities of customers for engagements)	24,068	25,718	32,553	22,476	17,719
Advances to Customers Less Provisions Current, Fixed and Other Deposits of Customers	13,514	15,923	19,724	13,322	10,117
Certificates of Deposit	18,935	18,582	20,623	15,089	11,150
	900	1,997	3,453	3,087	2,383
<b>Share Statistics (HK\$)</b>					
Earnings per Share (Weighted Average Basis)	0.02	0.08	0.46	0.56	0.48
Earnings per Share (Adjusted)	0.02	0.08	0.46	0.56	0.48
<b>Selected Returns and Ratios (%)</b>					
Return on Average Equity	0.72	2.64	16.84	21.05	21.00
Return on Average Assets (excludes liabilities of customers for engagements)	0.10	0.29	1.51	1.91	2.00
Consolidated Capital Adequacy Ratio	22.38	19.12	11.54	15.64	13.82
Average Liquidity Ratio (for December)	48.50	48.71	41.15	39.02	42.95

### Notes:

- The earnings per Share is calculated on earnings of HK\$23,838,000 (1998: HK\$81,838,000) and on the weighted average of 1,172,160,000 (1998: 1,068,227,507) Shares in issue during the year. There were no convertible loan capital, options or warrants outstanding which would cause a dilution effect on the earnings per share.
- Certain comparative figures have been reclassified to conform with the current year's presentation.

# CORPORATE INFORMATION

## SHAREHOLDERS

55% — Arab Banking Corporation  
(B.S.C.)  
20% — China Everbright Limited  
25% — Public

## SOLICITORS

Clifford Chance

## AUDITORS

KPMG

## SECRETARY

Ivan Young



*Sheikh Ali Jarrah Al-Sabah – Chairman*



*Mike M. Murad – Vice Chairman,  
Managing Director and Chief  
Executive Officer*

## REGISTERED OFFICE

International Bank of Asia Building  
38 Des Voeux Road Central  
Hong Kong

## BOARD OF DIRECTORS

### Sheikh Ali Jarrah AL-SABAH

Non-executive Chairman, aged 49. Sheikh Ali is the Chairman of Egyptian Kuwaiti Real Estate Development Company, the Chairman and Managing Director of Al-Ahlia International Trading & Importing Company W.L.L., a member of the Higher Planning Council for the State of Kuwait and a Director of Arab Banking Corporation (B.S.C.) and Bahrain Middle East Bank. Sheikh Ali became a Director of IBA in 1985.

### Mike M. MURAD

Vice Chairman and Executive Director, aged 58. Mr. Murad was appointed Managing Director and Chief Executive Officer of IBA in 1988. He holds a Bachelor's Degree in Business Administration from Cleary College, U.S.A., a Master's Degree in Business Administration from the University of Miami, U.S.A. and banking and management degrees from Stonier Graduate School of Banking at Rutgers University, U.S.A., the University of Michigan Graduate School of Banking and the University of Wisconsin and the Harvard Executive Management Program. He received an honorary degree, Doctor of Humane Letters, from DePaul University in 1998. Mr. Murad has held a number of senior executive positions in international and retail banking. His 30-year banking career includes appointments in the U.S.A., Hong Kong and Bahrain. While in the U.S.A., he was Executive Vice President of Sun Bank of Miami. He was also a lecturer at the University of Maryland and is the author of a book entitled *Profit Planning: Theory and*

*Implementation*, and has contributed articles on banking and financial markets to the Asian Wall Street Journal and International Herald Tribune. He was the recipient of the Paul Harris Fellow Award of The Rotary Foundation of Rotary International in 1992 for charitable work.

**Steven Kwok Lim POON**

Non-executive Director, aged 56. Mr. Poon is the Managing Director of Bright World Enterprise Limited and Vice Chairman of the Council of Hong Kong University of Science and Technology. Mr. Poon was formerly the General Manager and Chief Operating Officer of a Hong Kong public utility company, China Light and Power Co., Limited, and previously served as a member of the Hong Kong Stock Exchange Council. He was previously a member of the Legislative Council and a member of the Selection Committee of the Hong Kong Special Administrative Region. He received his Master's Degree in Electrical Engineering from the University of Hong Kong. Mr. Poon received his Honorary Doctor Degree in Business Administration in 1997 from Hong Kong University of Science and Technology. He became a Director of IBA in 1992.

**Michael K. IPSON**

Executive Director, aged 53. Mr. Ipson is an Executive Vice President responsible for the Bank's corporate banking, investment banking and China businesses. He joined IBA in December 1991 after serving as General Manager of Chemical Bank Hong Kong Branch and Chief Executive of Chemical Asia Limited. Mr. Ipson received his undergraduate university degree from the University of California, Berkeley, U.S.A. and a Master's Degree in Asian studies from Stanford University, U.S.A., as well as conducting doctoral studies at Harvard University, U.S.A.. He also holds a Master of Business Administration Degree from DePaul University, U.S.A.. He became a Director of IBA in 1997.

**SHAO Zhengkang**

Non-executive Director, aged 47. Mr. Shao is an Executive Director and the General Manager of China Everbright Limited. He is also a Director of China Everbright Holdings Company Limited. Mr. Shao was a Deputy Division Chief of the International Department of the head office of the People's Bank of China. He also worked as an economist with the Asia Department of the International Monetary Fund. Mr. Shao holds a Bachelor of Arts Degree from Shanghai Institute of Foreign Languages, China; he has also obtained a Master Degree in Business Administration from the George Washington University, U.S.A. and Doctorate Degree from the International Management Centres, UK. He became a Director of IBA in February 1999.

**Robert James KENRICK**

Non-executive Director, aged 52. Mr. Kenrick is a member of the Financial Accounting Standards Committee of the Hong Kong Society of Accountants and a member of the Advisory Committee of Trailwalker. He holds a Master of Arts Degree from Cambridge University and is a Chartered Accountant. He is a former partner of the international accounting firm KPMG and became a Director of IBA in April 1999.

**SO Yiu Cho James, CBE, JP**

Non-executive Director, aged 60. Mr. So is the Managing Director of the Hong Kong Experts Consultancy Company Limited. He is also an Independent Non-Executive Director of the China Motor Bus Company Limited. He holds a Bachelor of Arts (Hons) Degree from Hong Kong University. He joined the Hong Kong Government in 1962 and served in the Administration Grade until his retirement from the post of Secretary for Recreation and Culture in 1996. He was awarded the OBE in 1991 and the CBE in June 1996. He became a Director of IBA in August 1999.

**Eissa Mohamed AL SUWAIDI**

Non-executive Director, aged 42. Mr. Al Suwaidi is the Executive Director of Abu Dhabi Investment Authority, United Arab Emirates. He is also a Director of Arab Banking Corporation (B.S.C.), Abu Dhabi National Oil Company for Distribution and the Chairman of Egypt Arab African Bank. He holds a Bachelor's Degree in Economics from Northeastern University, U.S.A.. He became a Director of IBA in August 1999.

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**Taher Darwish MAKKIYAH**

Non-executive Director, aged 50. Mr. Makkiyah is the Executive Vice President and Chief Banking Officer of Arab Banking Corporation (B.S.C.) in charge of the commercial activities world wide. He first joined Manufacturers Hanover Corporation in 1974 and continued through its merger with Chemical Banking Corporation in 1991 and then its merger with Chase Manhattan Bank in July 1996. In 1996 he became the Managing Director of Chase Manhattan Bank based in the UK. He joined Arab Banking Corporation (B.S.C.) in 1998. He received his Master's Degree from Tulane University, U.S.A.. He became a Director of IBA in September 1999.

**GUO You**

Non-executive Director, aged 42. Mr. Guo is an Executive Director and the Chief Executive Officer of China Everbright Limited. He joined China Everbright Bank as Executive Vice President in August 1998. Prior to that, Mr. Guo had been the Deputy Director of the Department of Supervision over Foreign Financial Institutions of the People's Bank of China. He had also been the Managing Director of an investment

company (Singapore) of the PRC. Mr. Guo holds a Bachelor's Degree in History from China Baotou Normal University and has been awarded a Certificate of Study in Financial Policy Programming by the IMF Institute. Mr. Guo has extensive experience and knowledge in banking and finance. He became a Director of IBA in December 1999.

## SENIOR MANAGEMENT

(Members of Managing Director's Office)

### **Bashar F. SAMRA**

Executive Vice President — Consumer Banking Group, aged 42. Mr. Samra is responsible for the Bank's retail banking and credit card businesses. He also oversees the platform of information system of the Bank. He holds a Bachelor of Science Degree Cum Laude, a Master of Science Degree from the University of Memphis, U.S.A. and a Master of Business Administration Degree from DePaul University, U.S.A.. He has attended various management programmes at the University of Maryland, U.S.A. and the Stanford Executive programme. Mr. Samra initially worked in the engineering industry in the U.S.A. and the Middle East, and subsequently moved into various senior management positions with a major conglomerate in Bahrain. He joined IBA in 1989.

### **CHAN, David Yik Keung**

Executive Vice President — Financial Control and Support Group, aged 48. Mr. Chan is the Chief Financial Officer of IBA and is responsible for the Bank's financial control, strategic planning and other support functions. He is also the Chairman of IBA Securities Limited and is registered as a dealer and investment adviser under the Securities Ordinance. He holds a Bachelor of Science Degree in Mathematics from the Imperial College of Science, Technology and Medicine – University of London and a Master of Business Administration Degree from DePaul University, U.S.A.. He is an Associate Member of the Institute of Chartered Accountants in England and Wales. Mr. Chan had over 14 years of experience in accounting and finance prior to joining IBA in December 1987.

### **Davy KWAN Kwok Ki**

Senior Vice President and Head of Treasury, aged 43. Mr. Kwan has a Diploma in Finance from The Chinese University of Hong Kong and a Master of Business Administration Degree from DePaul University, U.S.A.. He is registered as a dealer and investment adviser under the Securities Ordinance. Mr. Kwan had over 12 years of experience in treasury and money market operations with several major banks and financial institutions prior to joining IBA in 1988.

**Francis YEUNG Wai Hung**

Senior Vice President and Head of Hire Purchase and Leasing, aged 44. Mr. Yeung obtained a Master's Degree in Business Administration from the University of Aston, England and had over 8 years of experience in hire purchase and leasing operations with several major foreign banks in Hong Kong before joining IBA in 1989.

**Kien CHAN Kien Ngai**

Senior Vice President and Head of China Division, aged 42. Mr. Chan obtained a Bachelor's Degree and a Master of Business Administration Degree from the City University, London, England. He also obtained a Certificate in Marketing from the Graduate School of Business, Columbia University, New York, U.S.A.. Mr. Chan worked for two major American banks before joining IBA in 1987. After working with the Bank for five years, Mr. Chan then relocated to North America and later rejoined the Bank in 1994. He has extensive experience in various banking functions.

**Betty Hoang BROW**

Senior Vice President and Head of Investment Banking Division, aged 48. Ms. Brow obtained a Bachelor of Science Degree with honors and a Master of Business Administration Degree from the University of Maryland, U.S.A.. She initially worked for the U.S. State Department serving at American Embassies in Moscow, U.S.S.R. and Beijing, P.R.C.. Prior to joining IBA, Ms. Brow had over 12 years of commercial and investment banking experience with Chemical Bank and Bankers Trust Company in Hong Kong. She joined IBA in 1996.

**Irene CHEUNG Ming Wai**

Senior Vice President and Head of Credit Administration, aged 47. Ms. Cheung has 13 years of experience in accounting, auditing and tax works in Sydney, Hong Kong and PRC companies prior to joining IBA in 1990. She worked in various positions in IBA and is currently the Head of Credit Administration. Ms. Cheung has a Bachelor of Economics Degree from the University of Sydney and a Master of Business Administration Degree from the Hong Kong Open University. She is enrolled in the IBA-DePaul MBA Program and will graduate in December 2000. Ms. Cheung is also a member of the Australian Society of CPAs and Hong Kong Society of Accountants.

**James CHENG Ping Kwong**

Senior Vice President and Head of Corporate Banking, aged 39. Mr. Cheng obtained a Bachelor of Arts Degree from the University of Western Ontario, Canada and a Master of Business Administration Degree from the University of San Francisco, U.S.A.. He initially worked in various positions in treasury, credit and marketing departments in a major American bank. He then left banking and managed a manufacturing company for 4 years. He served 4 years in a major European Bank responsible for origination and marketing works in the Greater China Region prior to joining IBA in February 1999.



## THE HONG KONG AND CHINA ECONOMIES

### Hong Kong



After suffering the full force of the Asian financial crisis in 1998, Hong Kong entered calmer waters in 1999, and experienced a gradual recovery. Tentativeness and fragility governed most of the year. By the end of the year there was a definite improvement in sentiment, and clear signs of resumed growth. The revival of the stock market was encouraging, yet unemployment remained historically high, consumer spending cautious and property prices refused to rebound.

Hong Kong's economy shrank by 5.1% in 1998, the first year on record with negative GDP, reflecting the severity of the worst economic conditions since World War II. The economy continued to shrink in the first quarter of 1999, with GDP falling by an additional 3.0%. Price deflation, which first appeared in November 1998, continued and accelerated. Unemployment hit a peak of 6.3% (on a moving 3-month average) in May 1999. Retail sales fell in value terms reflecting consumers' concerns about their jobs. The trade picture was equally dismal, with domestic exports declining sharply. This was a result of the collapse of regional demand in the wake of the crisis touched off in July 1997 with the devaluation of the Thai baht. Re-exports also declined throughout the first half as China's exports shrank. Hong Kong's imports also fell each month during the first half of 1999.

The stock market gave an early indication that the economy was edging toward recovery. The Hang Seng Index stood at 10,049 at 31 December 1998. The index began an ascent in March 1999, rising to 13,500 in June, and then trading in a narrow range of 12,700 to 13,500 until November. The Hang Seng Index rose above 15,000 in November and closed at 16,962 on 31 December. Third quarter GDP figure was a real surprise with expansion of 4.5%, but was based on a 1998 third quarter, which was the trough of the recession when GDP had plummeted by 7.1%. In contrast to GDP expansion, consumer spending continued to fall, with retail sales falling by 7.9%, 7.7% and 6.4% in July, August and September, respectively.

Government figures for the fourth quarter confounded observers, showing GDP expanded by 8.7%. The stock market was indeed up in the fourth quarter, and total exports grew by double-digit percentages in November and December, led by re-exports. For the full year total exports were up a meager 0.1% to HK\$1.35 trillion, with re-exports



1.7% to HK\$1.18 trillion, and domestic exports down by 9.5% to HK\$171 billion. Imports fell 2.5% to HK\$1.39 trillion. Visitor arrivals also surged in the fourth quarter, traditionally the busiest time of year for the tourism industry. Hotel occupancy for the year rose to 79% compared to 76% in 1998, but visitor spending fell by 4.1% year-on-year to HK\$53 billion. The reported recovery was of little solace to workers and retailers, as unemployment persisted at the 6.0-6.2% range, and retail sales declined 8.1% for the year in value terms, and 1.5% in volume terms despite steep discounting. The fall in retail sales, as well as low rentals and the lack of recovery in property prices causing the consumer price index to fall by 4.0% for the full year compared to a 2.8% rise in 1998.

### **Hong Kong Banking**

The underlying weakness of the economy resulted in a lack of loan demand. The banking industry saw a 14.8% fall in loans for 1999 following a 19.8% decline in 1998. Reflecting negative sentiment in the property market, residential mortgage loans, the backbone of bank loan portfolios, fell by 0.3% in December 1999, the first such decline in 5 years. Trade finance fell throughout the year, down by 8.0% in the first quarter, 7.3% in the second quarter, 4.4% in the third and a further 6.0% in the fourth. In contrast, deposits within the banking system grew as consumers kept their money in the bank rather than spending. Overall, deposits rose by 7.6% for the year, contributing to an increase in liquidity. Hong Kong dollar Prime fell from 9.00% at the end of 1998 to 8.75% in the first quarter, experienced two downward adjustments to 8.25% in the second quarter, and then climbed back to 8.5% in the third quarter.

Credit quality suffered from the continuing recession, although Hong Kong fared better than most countries. Classified loans appear to have peaked in the third quarter, with a mild decline being achieved in the fourth quarter. The full extent of problem loans to Hong Kong borrowers were evident by the first part of 1999, and were addressed early on. The issue of PRC lending continued to evolve over the year, with many Chinese borrowers going into standstill status after the collapse of GITIC in the fall of 1998 and the revealing of the financial difficulty of Guangdong Enterprises at the end of that year. Guangdong Enterprises only announced its restructuring plan on 16 December 1999 after torturous negotiations, putting all other negotiations on the back burner.



### Mainland China

The Mainland economy slowed over the 1999, growing by 8.3% in the first quarter, 7.1% in the second, 7.0% in the third quarter and 6.5% in the last quarter, with full year GDP expansion of 7.0%. Exports were down during the first half of the year by 4.6% before surging in the second half, with December figures up by 30% and the full year figure of US\$195 billion, 6.1% higher than 1998. Imports grew at a faster rate, rising 18.2% to US\$166 billion. The trade surplus of US\$29 billion was 33% down on 1998's figure, but contributed to a 6.7% increase in foreign exchange reserves, which stood at US\$154.7 billion at the end of December 1999.

The continuing restructuring of the state enterprise sector has resulted in higher levels of unemployment. The private sector is absorbing a significant number of laid-off state workers, but concerns about job security tempered retail sales. For the full year sales rose 6.8%, but they were noticeably weak in the second quarter. Weak consumer demand drove down the consumer price index by a further 1.3% during 1999, with more than 20 consecutive months of decline.

The government took further steps in reform of the financial sector. Regulatory responsibilities were clearly demarcated between People's Bank of China, the China Securities Regulatory Commission and the China Insurance Regulatory Commission. The big four state-owned banks, Bank of China, China Construction Bank, Agricultural Bank and Industrial and Commercial Bank, all established asset management companies to take over bad loans and negotiate debt-equity swaps and restructuring. People's Bank carried out examinations of all non-bank financial institutions, and was moving toward a fundamental restructuring of the trust and investment sector. The Central Government granted RMB38 billion (approximately US\$4.2 billion) in December to Guangdong Province to resolve obligations of local cooperative banks and trust and investment companies. Final arrangements are still to be announced.

The Y2K issue was a high priority in both Hong Kong and Mainland throughout 1999, as government, financial institutions and industry at large devoted massive resources to ensure that catastrophe was avoided. In the event, 31 December 1999 passed with little to report in both Mainland and the Hong Kong SAR.

This was a positive note to begin the new year and the new millennium with. It held up the prospect of a return to Hong Kong's traditional growth, and a revival of sentiment. Through the efforts of the people of Hong Kong, the SAR survived the worst effects of the Asian crisis. There was a sharp devaluation of assets, and a decline in the standard of living. But the rationalization of operating costs and a greater emphasis on technology has laid the foundation for a new period of growth. This has been reflected in the strong performance of the stock market during the first three months of 2000, the emergence of E-commerce and knowledge-based industries as a force to be reckoned with, and the greater sense of optimism that pervades the community.

## **INTERNATIONAL BANK OF ASIA PERFORMANCE**

### **Overview**

Against the background of unfavorable economic conditions and weak loan demand, IBA concentrated on fundamentals, maintaining high liquidity and capital adequacy, addressing problem loans, exercising tight control over operating costs, upgrading technology and continuing to train staff. While it was not possible for IBA to go against economic and industry trends, we took steps to position ourselves for the expected recovery in 2000.

IBA maintained high liquidity throughout the year, averaging between 45-51% during 1999 and standing at 48.5% average liquidity for the month of December 1999. We took advantage of the decline in loan demand throughout the industry to carry out a measured reduction in the loan-to-deposit ratio from 77% at the end of 1998 to 68% at the end of 1999. Capital adequacy increased from 19.12% in December 1998 to 22.38% in December 1999. IBA's Standard & Poor's rating of A-3, BBB, originally issued in November 1996, remains unchanged.

### **Balance Sheet**

Total assets declined by 6.4% to HK\$24 billion, reflecting the reduced level of economic activity. Liquid assets consisting of cash, short term placements with banks and placements maturing between one and twelve months remained unchanged at HK\$5.4 billion. Advances to customers and trade bills discounted declined 14% to HK\$14 billion, in line with the 15% decline in the industry. IBA's increased liquidity was deployed into government securities, providing the flexibility to meet increased loan demand, which showed signs of emerging at the very end of the year. Total investments increased by 22% to HK\$2.19

billion. Premises and equipment remained essentially unchanged at HK\$1.16 billion as branch expansion was put on hold during the recession.

Customer deposits rose by 2% to HK\$18.9 billion, with further expansion restrained by the lack of loan demand. As noted above, the loan-to-deposit ratio declined by 9% to 68% over the course of the year. Interbank takings were a mere HK\$90 million, making IBA a net lender of HK\$4.27 billion in the interbank market. Certificates of deposit issued by IBA declined to HK\$900 million as maturing issues were repaid and IBA waited for the medium-term funding market to revive. Shareholders' funds remained at HK\$3.3 billion.

### Income Statement

Interest income during 1999 declined 23% to HK\$1.8 billion due to the combination of lower rates and reduced loan outstandings. Hong Kong dollar Prime ranged from 10.25% to 9.00% in 1998, compared to 8.75% to 8.25% in 1999. The keen competition between banks for residential mortgage loans reduced market pricing from Prime plus 0.25% at the beginning of 1999 to Prime minus 0.5% by the end of the year. Interest expense fell 32% despite the 2% increase in deposits. Deposit rates in Hong Kong fell by 200 basis points during the first half of the year and a further 50 basis points during the second half. A survey prepared by the consulting firm KPMG showed that IBA enjoys one of the lowest funding costs among its peers. Despite the 23% decline in total interest income, net interest income remained unchanged at HK\$664 million. IBA's net interest margin rose by almost one-fifth from 2.49% to 2.94% between 1998 and 1999, one of the highest margins among local banks.

Non-interest income declined by 42% to HK\$119 million due to a series of factors. Hong Kong's lower foreign trade volume reduced trade finance fees. This was also a cause of the decline in foreign exchange transactions and fees executed on behalf of our customers. The decline in consumer spending as reflected in the fall in retail sales resulted in reduced credit card fees. The lower level of lending caused a reduction in loan fees. Brokerage on share trading was a bright spot, rising 20% on the back of opening two investment centers, which allowed IBA to capture more retail trade. The decline in non-interest income resulted in a 10% decline in operating income to HK\$783 million. This was partially offset by a HK\$30 million saving in operating expenses, which fell 7% to HK\$387 million. This follows a 4% decline



in 1998. Thus, operating profit before provisions was down a marginal 12.2% to HK\$396 million despite the larger decline in lending.

Provisions for bad and doubtful debts rose 6% to HK\$374 million. Interest non-accrual loans have fallen since December 1998 from HK\$779 million to HK\$774 million as of 30 June 1999 and further to HK\$750 million as of 31 December 1999. The fall in interest non-accrual loans extended to Hong Kong borrowers has been more dramatic, dropping 23% to HK\$473 million at the end of December 1999. In contrast, the problems with PRC borrowers emerged during the year, and interest non-accrual loans to PRC borrowers rose to HK\$277 million at the end of the year. Furthermore, we have been able to reschedule HK\$338 million of PRC loans (these loans are also categorized as interest non-accrual loans in accordance with HKMA guidelines). Specific provisions and collateral provide 96.2% coverage of Hong Kong non-accrual loans, and 78.4% of total non-accrual loans. Net profit for the year was HK\$24 million, a decline of 71%. There were no extraordinary earnings resulting from asset sales during the year.



### Community Activities

IBA is proud to play a role in supporting our community. At the beginning of 1999 our staff organized a charity walk which raised money for the Hong Kong Society for the Blind. IBA sponsored a program on road safety in schools throughout Hong Kong that ran for the better part of the year. We were also a sponsor for the Dragon Boat races held in Tuen Mun. We would like to thank our Regional Advisory Council for their guidance in identifying these opportunities. In June IBA invited President George Bush to address our most valuable clients, presenting a thought provoking analysis of relations between China and the United States.

### Conclusion

IBA devoted much of its effort over the past 18 months to creating an organization which could exploit the economic recovery in 2000. Our customers have restructured their balance sheet, reducing their debt burden and their operating expenses. They are now gearing up for expansion. Our long-time customers have demonstrated their ability to weather the storm and we have gained experience with the selective group of new customers that we have added during the past two years. At the end of 1999 IBA engaged the A C Nielsen organization to conduct a survey of customer preferences and satisfaction which is being used to focus our marketing and service programs.



We installed a new retail banking system in 1999 based on a Unix platform. This provides us with increased flexibility and capacity, leading to improved productivity. We have also initiated the design of a comprehensive Internet banking infrastructure which will provide retail, corporate and share brokerage customers with the highest level of service. During 1999 we entered into two key partnerships which open new avenues to IBA. IBA's in-house insurance company was sold to Winterthur Insurance, the insurance arm of the Credit Suisse Group. At the same time we entered into a strategic marketing agreement with Winterthur whereby a devoted team of Winterthur financial advisors will market life and investment products to IBA customers under the IBA Swiss Privilege trademark. Other units of Winterthur will provide general insurance services for IBA customers. In each case, IBA earns commission. The results during the first six months of the partnership have exceeded our previous earnings from insurance activities. IBA also became a shareholder in Bank Consortium Trust Company, a joint venture of 10 local banks to provide Mandatory Provident Fund services. Under the MPF ordinance, all Hong Kong companies must provide a retirement plan to their employees. More than 300,000 Hong Kong companies have no retirement plan at the moment. This will generate additional fee income to IBA for each of our customers who sign up with the Consortium. The cooperation among the 10 banks has been expanded to the area of corporate lending, permitting the consortium to provide large loans to Hong Kong's leading corporations. Further areas of cooperation will be explored.

Loan growth is resuming, and fee income is up sharply in the first 3 months of 2000. We are adding new customers, products and delivery channels. IBA's strong fundamentals have permitted it to navigate through the rough waters of the past two and a half years, with market position, balance sheet quality and capital intact.

# DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited accounts of International Bank of Asia Limited ("the Bank") and its subsidiaries (collectively "the Group") for the year ended 31 December 1999.

## PRINCIPAL ACTIVITIES

The Bank, through its branches and subsidiaries, provides a range of banking, financial and related services.

## SUBSIDIARIES

Particulars of the Bank's principal subsidiaries at 31 December 1999 are set out in Note 18 to the accounts.

## RESULTS AND APPROPRIATIONS

The result of the Group for the year ended 31 December 1999 is set out in the consolidated profit and loss account on page 19.

During the year the Bank paid an interim dividend of 2.00 cents per ordinary share, totaling HK\$23,443,000 (1998: HK\$46,886,000). The Directors recommend the payment of a final dividend of 3.00 cents per ordinary share, totaling HK\$35,164,800 (1998: HK\$11,721,600).

## DIRECTORS

The Directors in office during the year were:

Sheikh Ali Jarrah Al-Sabah	
Mohammad M. Murad	
Poon Kwok Lim, Steven	
Michael K. Ipson	
Wang Taoguang	(Resigned on 10 February 1999)
Shao Zhengkang	(Appointed on 10 February 1999)
Leung Pak To, Francis	(Resigned on 20 April 1999)
Robert James Kenrick	(Appointed on 21 April 1999)
Farouk Yousef Almoayyed	(Resigned on 04 August 1999)
So Yiu Cho, James	(Appointed on 04 August 1999)
Khalifa Mohamed Al Kindi	(Resigned on 17 August 1999)
Eissa Mohamed Al Suwaidi	(Appointed on 17 August 1999)
Mark Leo Leonard	(Resigned on 10 September 1999)
Taher D. Makkiyah	(Appointed on 10 September 1999)
Yang Jiangang	(Resigned on 03 December 1999)
Guo You	(Appointed on 03 December 1999)



### ROTATION OF DIRECTORS IN THE FORTHCOMING ANNUAL GENERAL MEETING

In accordance with Article 77 of the Bank's Articles of Association, Messrs Shao Zhengkang, Robert J. Kenrick, So Yiu Cho, James, Eissa M. Al Suwaidi, Taher D. Makkiyah and Guo You retire and being eligible, offer themselves for election.

In accordance with Article 81 of the Bank's Article of Association, Mr. Michael K. Ipson retires but will not offer himself for re-election.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out by the Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules.

### DIRECTORS' INTERESTS IN SHARES

None of the Directors has any interest in, or rights to subscribe for the share capital of the Bank or any associated corporation.

### ARRANGEMENTS TO PURCHASE SHARES

At no time during the year was the Bank or its subsidiaries or its holding company or any of its fellow subsidiaries a party to any arrangements to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of the Bank or any other corporation.

### SUBSTANTIAL SHAREHOLDERS

At 31 December 1999, the register of substantial shareholders showed that the Bank had been notified of the following interests, being 10% or more of the Bank's issued share capital.

	<b>Ordinary shares HK\$1 each</b>	<b>Percentage of of total shareholding</b>
Arab Banking Corporation (B.S.C.)	644,688,000	55.0
Tendai Limited (wholly owned subsidiary of China Everbright Limited)	234,432,000	20.0

### **DIRECTORS' INTERESTS IN CONTRACTS**

No director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Bank which is not determinable by the Bank within one year without payment of compensation other than normal statutory obligations. No contract of significance in relation to the Bank's business to which the Bank or any of its subsidiaries, holding company or fellow subsidiaries was a party and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

The Bank has not redeemed any of its shares during the year. Neither the Bank nor any of its subsidiaries has purchased or sold any of the Bank's shares during the year.

### **MANAGEMENT CONTRACTS**

No substantial contracts concerning the management and administration of the Bank were entered into or existed during the year.

### **FIXED ASSETS**

Movements in fixed assets of the Bank and the Group are set out in Note 19 to the accounts.

### **DONATIONS**

Donations made by the Bank and its subsidiaries for charitable purposes during the year amounted to HK\$673,953 (1998: HK\$612,855).

### **AUDITORS**

The accounts have been audited by KPMG who retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Group is to be proposed at the forthcoming Annual General Meeting.

**Sheikh Ali Jarrah Al-Sabah**

*Director*

Hong Kong, 8 March 2000



**TO THE SHAREHOLDERS OF  
INTERNATIONAL BANK OF ASIA LIMITED**  
*(incorporated in Hong Kong with limited liability)*

We have audited the accounts on pages 19 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND  
AUDITORS**

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

**BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Bank's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

**OPINION**

In our opinion, the accounts give a true and fair view, in all material respects, of the state of affairs of the Bank and of the Group as at 31 December 1999 and of the profit of the Group and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**KPMG**  
*Certified Public Accountants*

Hong Kong, 8 March 2000

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1999

	Notes	1999 HK\$'000	1998 HK\$'000
Interest income		1,813,696	2,362,757
Interest expense		(1,149,738)	(1,698,573)
<b>Net interest income</b>		<b>663,958</b>	664,184
Other revenue	3	77,881	118,818
Other operating income	4	40,704	84,611
<b>Operating income</b>		<b>782,543</b>	867,613
Operating expenses	5	(386,870)	(416,961)
<b>Operating profit before provisions</b>		<b>395,673</b>	450,652
Provision for bad and doubtful debts	7	(373,833)	(339,398)
Provision against investments in associated company		0	(4,897)
Provision against non-trading securities		0	(8,000)
<b>Profit before tax</b>		<b>21,840</b>	98,357
Taxation	8	1,998	(16,519)
<b>Profit attributable to Shareholders</b>		<b>23,838</b>	81,838
<b>Movements in retained earnings:</b>			
Profit for the year attributable to shareholders		23,838	81,838
Retained earnings brought forward		1,015,256	992,026
		<b>1,039,094</b>	1,073,864
Dividends – Interim	9	(23,443)	(46,886)
– Final	9	(35,165)	(11,722)
<b>Retained earnings carried forward</b>	27	<b>980,486</b>	1,015,256
Earnings per share (HK cents)	10	2.03	7.66

No separate consolidated statement of recognised gains and losses has been prepared as the net profit for the year would be the only component of this statement.

The notes on pages 23 to 55 form part of these accounts.

# CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 1999

	Notes	1999 HK\$'000	1998 HK\$'000
<b>ASSETS</b>			
Cash on hand		424,637	101,115
Short term funds	12	4,730,532	5,283,199
Placements with banks maturing between one and twelve months	13	263,305	71,000
Trade bills less reserves and certificates of deposit	14	474,558	377,423
Advances to customers less reserves	15	13,514,123	15,922,707
Accrued interest and other accounts		940,994	512,548
Investments	16	2,185,565	1,791,594
Investments in associated company	17	16,856	20,147
Premises and equipment	19	1,157,599	1,170,304
Liabilities of customers for engagements	20	359,797	468,427
		<u>24,067,966</u>	<u>25,718,464</u>
<b>LIABILITIES</b>			
Deposits and balances of other banks	21	89,919	1,015,952
Current, fixed and other deposits of customers	22	18,935,003	18,582,006
Certificates of deposit issued	23	900,085	1,996,838
Other accounts and provisions	24	508,738	346,047
Engagements on behalf of customers		359,797	468,427
		<u>20,793,542</u>	<u>22,409,270</u>
<b>CAPITAL RESOURCES</b>			
Share capital	25	1,172,160	1,172,160
Share premium	26	749,778	749,778
Reserves	27	1,352,486	1,387,256
		<u>3,274,424</u>	<u>3,309,194</u>
Shareholders' funds		<u>24,067,966</u>	<u>25,718,464</u>

Approved by the Board of Directors on 8 March 2000.

**Sheikh Ali Jarrah Al-Sabah**  
Director

**Mike M. Murad**  
Director

**Robert J. Kenrick**  
Director

The notes on pages 23 to 55 form part of these accounts.

# BALANCE SHEET

AS AT 31 DECEMBER 1999

	Notes	1999 HK\$'000	1998 HK\$'000
<b>ASSETS</b>			
Cash on hand		424,637	101,115
Short term funds	12	4,730,420	5,283,057
Placements with banks maturing between one and twelve months	13	263,305	71,000
Trade bills less reserves and certificates of deposit	14	474,558	321,409
Advances to customers less reserves	15	12,400,822	14,325,967
Accrued interest and other accounts		778,944	442,038
Investments	16	2,183,565	1,776,770
Investments in associated company	17	16,856	20,147
Investments in subsidiaries	18	87,146	130,811
Due from subsidiaries		963,503	1,492,102
Premises and equipment	19	1,122,104	1,133,899
Liabilities of customers for engagements	20	381,591	479,351
		<u>23,827,451</u>	<u>25,577,666</u>
<b>LIABILITIES</b>			
Deposits and balances of other banks	21	89,919	1,015,952
Current, fixed and other deposits of customers	22	18,409,511	17,573,832
Certificates of deposit issued	23	900,085	1,996,838
Other accounts and provisions	24	354,009	247,812
Due to subsidiaries		605,984	1,177,782
Engagements on behalf of customers		381,591	479,351
		<u>20,741,099</u>	<u>22,491,567</u>
<b>CAPITAL RESOURCES</b>			
Share capital	25	1,172,160	1,172,160
Share premium	26	749,778	749,778
Reserves	27	1,164,414	1,164,161
		<u>3,086,352</u>	<u>3,086,099</u>
Shareholders' funds		<u>23,827,451</u>	<u>25,577,666</u>

Approved by the Board of Directors on 8 March 2000.

**Sheikh Ali Jarrah Al-Sabah**  
Director

**Mike M. Murad**  
Director

**Robert J. Kenrick**  
Director

The notes on pages 23 to 55 form part of these accounts.

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 1999

	Notes	1999		1998	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Net cash inflow from operating activities</b>	34		2,205,897		1,873,178
<b>Return on investments and servicing of finance</b>					
Dividends paid		(35,165)		(151,315)	
Dividends received		1,319		2,311	
Interest paid on floating rate certificates of deposit issued		(99,340)		(216,072)	
			(133,186)		(365,076)
<b>Taxation</b>					
Profits tax paid		(32,110)		(91,634)	
Tax refunded		8,273		0	
			(23,837)		(91,634)
<b>Investing activities</b>					
Payments to acquire fixed assets		(23,162)		(43,458)	
Net increase in investments		(393,971)		(814,691)	
Proceeds from disposal of non-trading securities		0		8,992	
Net proceeds from disposal of a subsidiary	36(b)	64,569		0	
Net decrease/(increase) in investment in associated company		3,291		(15,250)	
			(349,273)		(864,407)
<b>Net cash inflow before financing activities</b>			1,699,601		552,061
<b>Financing</b>					
Proceeds from issue of ordinary share capital		0		790,712	
Floating rate certificates of deposit redeemed during the year	35	(1,096,753)		(1,456,445)	
			(1,096,753)		(665,733)
			602,848		(113,672)
<b>Cash and cash equivalents at 1 January</b>			4,317,362		4,431,034
<b>Cash and cash equivalents at 31 December</b>			4,920,210		4,317,362
<b>Analysis of cash and cash equivalents</b>					
Cash on hand			424,637		101,115
Short term funds			4,585,492		5,232,199
Deposits and balances of other banks			(89,919)		(1,015,952)
			4,920,210		4,317,362

The notes on pages 23 to 55 form part of these accounts.

# NOTES TO THE ACCOUNTS

## 1. ACTIVITIES AND CORPORATE AFFILIATION

The Bank, through its branches and subsidiaries, provides a range of banking, financial and related services.

The ultimate holding company of the Bank is Arab Banking Corporation (B.S.C.) which is incorporated in the State of Bahrain and operates as an offshore bank.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

### (b) Basis of preparation

The accounts have been prepared under generally accepted accounting principles in Hong Kong and fully comply with the recommendations in the Guideline "Financial Disclosures by Locally Incorporated Authorised Institutions" issued by the Hong Kong Monetary Authority.

### (c) Measurement basis of the accounts

The measurement basis used in the preparation of the accounts is historical cost modified by the revaluation of premises in 1989, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

### (d) Basis of consolidation

The consolidated accounts include the accounts of the Bank and all its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions are eliminated on consolidation.

### (e) Investment in subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Bank's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.



**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued)***(f) Associates**

An associate is a company in which the group or company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions. The accounting policy adopted by the Group is set out in Note 17.

**(g) Advances to customers**

Advances are carried at amounts advanced less payments collected and reserves for credit losses. Provision for credit losses is charged to expense and is determined by the directors at a level deemed appropriate to absorb known risks in the loan portfolio. In addition, an amount is set aside as a general reserve for credit losses.

Sales of accounts receivable on mortgage loans without recourse to the Bank or its subsidiaries are recognised when control over the receivables has been irrevocably transferred to a third party and the receivables are then no longer included in the balance sheet. Any related subordinated loan to the third party is included in investments.

**(h) Finance leases and hire purchase contracts**

The amounts due from lessees in respect of finance leases and hire purchase contracts are carried in the balance sheet as advances at the amounts of net investment which represent the total receivables less unearned income.

Finance income implicit in the rentals receivable is credited to the profit and loss account over the lease period so as to produce an approximately constant periodic rate of return on the net cash investment for each accounting period.

**(i) Investments in securities**

The Group's and the Bank's policies for investments in securities other than investments in subsidiaries and associated companies are as follows:

- i. Dated debt securities that the Group and/or the Bank have the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value.

The carrying amounts of held-to-maturity securities are reviewed as at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be fully recovered. Provisions are made when carrying amounts are not expected to be fully recovered and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (i) Investments in securities *(continued)*

- ii. Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.
- iii. Non-trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the profit and loss account.
- iv. Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- v. Profits or losses on disposal of investments in securities are accounted for in the profit and loss account as they arise. In the case of non-trading securities, the profit and loss includes any amount previously held in the investment revaluation reserve in respect of that security.

### (j) Fixed assets

Fixed assets are stated at cost or valuation less depreciation calculated to write off the assets over their estimated useful lives on a straight line basis at the following annual rates:

Leasehold land	over the remaining lease period
Long-term leasehold properties	2% on value of building
Computer equipments and software	14% to 25%
Motor vehicles	25%
Furniture and equipments	20%
Fixtures in long-term leasehold properties	10%
Fixtures in rented properties	over the lease period

### (k) Interest and fees

Interest income and expense are accrued on a time-apportioned basis on the principal outstanding and at the rate applicable. Fee income and expense are recognised when earned or incurred.

### (l) Operating leases

Operating lease payments on rented properties and other equipments are dealt with in the profit and loss account on a straight line basis over the period of the lease.

**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued)***(m) Deferred taxation**

Deferred taxation is provided under the liability method for all significant timing differences in the recognition of revenue and expense for tax and financial reporting purposes, except where it is considered to be probable that the tax effects of such deferrals will continue in the foreseeable future. Future deferred tax benefits are not recognised unless their realization is assured beyond reasonable doubt.

**(n) Foreign currency**

Transactions in foreign currencies during the year are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the rates ruling at the balance sheet date. Exchange gains and losses are included in the profit and loss account.

**(o) Off-balance sheet financial instruments**

Off-balance sheet financial instruments arise from future, forward, swap and option transactions undertaken in the foreign exchange and interest rate markets. The accounting for these instruments is dependent upon whether the transactions are undertaken for trading purposes, hedging purposes or as part of the management of asset and liability portfolios. Trading transactions are valued at the relevant rates ruling at the balance sheet date and the net unrealised gains or losses arising therefrom are dealt with in the profit and loss account. Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions which they are hedging. Any profit or loss is recognised on the same basis as that arising from the related assets, liabilities or net positions. Interest rate swap transactions undertaken as part of the management of asset and liability portfolios are separately identified and interest income or expense arising therefrom is netted-off against the related income or expense on the on-balance sheet items that these transactions are hedged against.

**(p) Related parties**

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

**3. OTHER REVENUE**

	<b>The Group</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
Fee and commission income	<b>82,919</b>	126,289
Less: Fee and commission expense	<b>(9,593)</b>	(10,929)
	<hr/>	<hr/>
Net fee and commission income	<b>73,326</b>	115,360
Dividend income from unlisted investments	<b>1,319</b>	2,311
Rental income less outgoings	<b>3,236</b>	1,147
	<hr/>	<hr/>
	<b>77,881</b>	118,818
	<hr/> <hr/>	<hr/> <hr/>

**4. OTHER OPERATING INCOME**

	<b>The Group</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
Gain on foreign exchange trading	<b>11,775</b>	20,547
Profit on disposal of non-trading securities	<b>0</b>	8,992
Profit on disposal of a subsidiary ( <i>Note 36</i> )	<b>1,679</b>	0
Others	<b>27,250</b>	55,072
	<hr/>	<hr/>
	<b>40,704</b>	84,611
	<hr/> <hr/>	<hr/> <hr/>

**5. OPERATING EXPENSES**

(a) The major items making up the operating expenses are as follows:

	<b>The Group</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
Staff costs		
– Salaries and other costs	<b>190,079</b>	209,605
– Pension costs	<b>11,810</b>	20,204
Premises and other fixed assets		
– Rental of premises	<b>11,645</b>	18,949
– Depreciation	<b>34,487</b>	30,146
– Others	<b>16,746</b>	12,161
Auditors' remuneration	<b>1,200</b>	1,400
Other operating expenses	<b>120,903</b>	124,496
	<b><u>386,870</u></b>	<u>416,961</u>

(b) Among the five individuals whose emoluments were the highest in the Group, two (1998: two) were directors of the Bank. The aggregate emoluments of the remaining three (1998: three) highest paid individuals were as follows:

	<b>The Group</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
Basic salaries and other allowances	<b>6,719</b>	6,725
Contributions to pension scheme	<b>528</b>	534
Bonuses	<b>1,060</b>	0
	<b><u>8,307</u></b>	<u>7,259</u>

**5. OPERATING EXPENSES (continued)**

- (c) The number of the three (1998: three) highest paid non-director employees of the Group whose total emoluments fell within the following defined bands are as follows:

	<b>The Group</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
HK\$1,500,001 – HK\$2,000,000	<b>1</b>	1
HK\$2,000,001 – HK\$2,500,000	<b>0</b>	1
HK\$3,000,001 – HK\$3,500,000	<b>2</b>	1

**6. DIRECTORS' REMUNERATION**

- (a) The aggregate remuneration of the directors disclosed pursuant to section 161 of the Hong Kong Companies Ordinance was as follows:

	<b>The Group</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
Directors' fees	<b>448</b>	248
Basic salaries and other allowances	<b>8,759</b>	8,846
Contributions to pension scheme	<b>752</b>	743
Bonuses	<b>6,581</b>	4,889
	<b><u>16,540</u></b>	<u>14,726</u>

Included in directors' remuneration were emoluments of HK\$3,962,630 (1998: HK\$2,682,563) paid to the non-executive directors during the year.

- (b) The number of directors of the Group whose total remuneration fell within the following defined bands are as follows:

	<b>The Group</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
HK\$nil – HK\$1,000,000	<b>14</b>	9
HK\$3,000,001 – HK\$3,500,000	<b>1</b>	1
HK\$8,500,001 – HK\$9,000,000	<b>0</b>	1
HK\$9,000,001 – HK\$9,500,000	<b>1</b>	0

**7. CHARGE FOR BAD AND DOUBTFUL DEBTS**

	<b>The Group</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
General Provision		
– trade bills ( <i>Note 14</i> )	(57)	(101)
– advances to customers ( <i>Note 15</i> )	<b>(63,054)</b>	25,342
	<b>(63,111)</b>	25,241
Specific Provision on advances to customers ( <i>Note 15</i> )	<b>436,944</b>	314,157
	<b>373,833</b>	339,398

**8. TAXATION**

(a) Taxation in the consolidated profit and loss account represents:

	<b>The Group</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
Provision for Hong Kong profits tax	6,275	16,519
Rebates	<b>(8,273)</b>	0
	<b>(1,998)</b>	16,519

Hong Kong profits tax has been provided at the rate of 16.0% on the estimated assessable profits for the year. The amount for 1999 also includes the tax rebate that was announced in the Financial Secretary's budget speech on 3 March 1999 which relates to the 1997/98 year of assessment, and which was received in 1999. The amounts of unprovided deferred tax as at 31 December 1999 and 1998 are immaterial.

**8. TAXATION** *(continued)*

- (b) Included in other accounts and provisions in the consolidated balance sheet is provision for Hong Kong Profits Tax of HK\$994,000 (1998: HK\$5,270,000), and included in accrued interest and other accounts is Hong Kong Profits Tax recoverable of HK\$62,218,000 (1998: HK\$40,659,000). The net effect of taxation is shown below:

	<b>The Group</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
Hong Kong Profits Tax recoverable	<b>(62,218)</b>	(40,659)
Provision for Hong Kong Profits Tax	<b>994</b>	5,270
	<b><u>(61,224)</u></b>	<u>(35,389)</u>

**9. DIVIDENDS**

	<b>The Group</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
Interim, paid, of 2.00 cents (1998: 4.00 cents) per share	<b>23,443</b>	46,886
Final, proposed, of 3.00 cents (1998: 1.00 cent) per share	<b>35,165</b>	11,722
	<b><u>58,608</u></b>	<u>58,608</u>

**10. EARNINGS PER SHARE**

The earnings per share is calculated on earnings of HK\$23,838,000 (1998: HK\$81,838,000) and on the weighted average of 1,172,160,000 (1998: 1,068,227,507) shares in issue during the year. There were no convertible loan capital, options or warrants outstanding which would cause a dilution effect on the earnings per share.

**11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

The profit attributable to shareholders includes a profit of HK\$58,861,000 (1998: HK\$60,285,000) which has been dealt with in the accounts of the Bank.



**12. SHORT TERM FUNDS**

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Bank balances	4,585,492	5,283,199	4,585,380	5,283,057
Treasury bills				
– unlisted, held-to-maturity	145,040	0	145,040	0
	<u>4,730,532</u>	<u>5,283,199</u>	<u>4,730,420</u>	<u>5,283,057</u>

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Repayable on demand	493,182	100,829	493,070	100,687
Within 1 month	4,092,310	5,182,370	4,092,310	5,182,370
1 year or less but over 3 months	145,040	0	145,040	0
	<u>4,730,532</u>	<u>5,283,199</u>	<u>4,730,420</u>	<u>5,283,057</u>

**13. PLACEMENTS WITH BANKS MATURING BETWEEN ONE AND TWELVE MONTHS**

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
3 months or less but over 1 month	166,565	71,000	166,565	71,000
1 year or less but over 3 months	96,740	0	96,740	0
	<u>263,305</u>	<u>71,000</u>	<u>263,305</u>	<u>71,000</u>

**14. TRADE BILLS LESS RESERVES AND CERTIFICATES OF DEPOSIT**

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Trade bills	11,167	19,184	11,167	19,184
Less: General reserves	(76)	(133)	(76)	(133)
	<u>11,091</u>	<u>19,051</u>	<u>11,091</u>	<u>19,051</u>
Certificates of deposit				
– unlisted, held-to-maturity	463,467	358,372	463,467	302,358
	<u>474,558</u>	<u>377,423</u>	<u>474,558</u>	<u>321,409</u>

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Repayable on demand	9,193	16,382	9,193	16,382
3 months or less but not repayable on demand	87,041	62,794	87,041	52,795
1 year or less but over 3 months	231,587	9,990	231,587	0
5 years or less but over 1 year	146,813	288,390	146,813	252,365
	<u>474,634</u>	<u>377,556</u>	<u>474,634</u>	<u>321,542</u>

Movements in reserves for doubtful debts – General:

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
At 1 January	133	234	133	234
Released during the year (Note 7)	(57)	(101)	(57)	(101)
	<u>76</u>	<u>133</u>	<u>76</u>	<u>133</u>
At 31 December	<u>76</u>	<u>133</u>	<u>76</u>	<u>133</u>

**15. ADVANCES TO CUSTOMERS LESS RESERVES**

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Advances to customers	<b>14,028,344</b>	16,310,881	<b>12,907,558</b>	14,714,141
Reserves for doubtful debts				
– General	(93,673)	(156,727)	(93,673)	(156,727)
– Specific	(420,548)	(231,447)	(413,063)	(231,447)
	<b>13,514,123</b>	15,922,707	<b>12,400,822</b>	14,325,967

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Repayable on demand	<b>820,539</b>	1,846,618	<b>805,677</b>	1,839,807
3 months or less but not repayable on demand	<b>967,727</b>	2,190,550	<b>800,819</b>	1,974,900
1 year or less but over 3 months	<b>1,384,564</b>	2,220,637	<b>1,011,617</b>	1,680,460
5 years or less but over 1 year	<b>2,144,349</b>	2,646,424	<b>1,787,046</b>	1,912,369
Over 5 years	<b>7,590,806</b>	6,495,868	<b>7,422,026</b>	6,445,386
Undated	<b>1,120,359</b>	910,784	<b>1,080,373</b>	861,219
	<b>14,028,344</b>	16,310,881	<b>12,907,558</b>	14,714,141

Movements in reserves for doubtful debts – General:

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
At 1 January	<b>156,727</b>	131,385	<b>156,727</b>	131,385
Charge for the year (Note 7)	(63,054)	25,342	(63,054)	25,342
At 31 December	<b>93,673</b>	156,727	<b>93,673</b>	156,727

**15. ADVANCES TO CUSTOMERS LESS RESERVES** *(continued)*

Movements in reserves for doubtful debts – Specific:

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
At 1 January	231,447	16,410	231,447	16,410
Charge for the year ( <i>Note 7</i> )	436,944	314,157	412,114	314,157
Written off during the year	(247,843)	(99,120)	(230,498)	(99,120)
At 31 December	<u>420,548</u>	<u>231,447</u>	<u>413,063</u>	<u>231,447</u>

Movements in interest suspended:

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
At 1 January	24,226	3,004	24,226	3,004
Interest suspended during the year	32,517	21,222	32,517	21,222
At 31 December	<u>56,743</u>	<u>24,226</u>	<u>56,743</u>	<u>24,226</u>

**15. ADVANCES TO CUSTOMERS LESS RESERVES** *(continued)*

Total advances on which interest is being placed in suspense:

The aggregate amount of advances ("gross advances") on which interest is being placed in suspense or on which interest accrual has ceased, together with the aggregate amount of specific reserves made and amount of collateral held in respect of such advances are as follows:

**The Group**

	<b>Gross advances</b> HK\$'000	*%	<b>**Amount of collateral held in respect of gross advances</b> HK\$'000	<b>Amount of specific reserves made against gross advances</b> HK\$'000	<b>Amount of interest suspended</b> HK\$'000
At 31 December 1999					
Rescheduled	338,409	2.41	8,180	153,460	10,383
Others	<u>750,177</u>	5.35	<u>446,994</u>	<u>141,370</u>	<u>46,360</u>
	<u><u>1,088,586</u></u>	7.76	<u><u>455,174</u></u>	<u><u>294,830</u></u>	<u><u>56,743</u></u>
At 31 December 1998	779,143	4.78	524,363	231,447	24,226

\* As a percentage of gross advances to customers.

\*\* Including expected recovery of HK\$35.67 million (1998: HK\$40.24 million) from companies in liquidation.

## 16. INVESTMENTS

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
<b>Investment in debt securities</b>				
<i>Held-to-maturity debt securities</i>				
Listed in Hong Kong				
– maturing within 1 year	650,375	0	650,375	0
– maturing between 1 to 5 years	402,759	0	402,759	0
Unlisted				
– maturing within 1 year	651,790	710,661	651,790	697,876
– maturing between 1 to 5 years	440,955	1,046,343	440,955	1,046,343
Sub-total	<u>2,145,879</u>	<u>1,757,004</u>	<u>2,145,879</u>	<u>1,744,219</u>
<b>Other securities</b>				
<i>Trading securities</i>				
– listed in Hong Kong	0	39	0	0
<i>Non-trading securities</i>				
– unlisted debt	32,686	32,551	32,686	32,551
– unlisted equity	7,000	2,000	5,000	0
Sub-total	<u>39,686</u>	<u>34,590</u>	<u>37,686</u>	<u>32,551</u>
Total	<u><u>2,185,565</u></u>	<u><u>1,791,594</u></u>	<u><u>2,183,565</u></u>	<u><u>1,776,770</u></u>
<b>Market Value</b>				
Listed in Hong Kong				
– equity securities	<u>0</u>	<u>39</u>	<u>0</u>	<u>0</u>
– held-to-maturity debt securities	<u><u>1,063,019</u></u>	<u><u>0</u></u>	<u><u>1,063,019</u></u>	<u><u>0</u></u>

Included in unlisted held-to-maturity debt securities maturing within 1 year for 1998 was a subordinated loan of HK\$141 million to Westpac Finance Asia Limited (“Westpac”) in connection with the sale of amounts receivable on mortgage loans. The mortgage outstanding was bought back by the Bank on 17 September 1999 and the subordinated loan was repaid to the Bank.

**16. INVESTMENTS** *(continued)*

The unlisted debt securities are issued by:

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
HKSAR Exchange Fund	1,003,335	1,000,855	1,003,335	988,070
Public sector entities	49,798	3,873	49,798	3,873
Banks and other financial institutions	219,016	282,427	219,016	282,427
Corporate entities	873,730	469,849	873,730	469,849
Total	<u>2,145,879</u>	<u>1,757,004</u>	<u>2,145,879</u>	<u>1,744,219</u>

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
3 months or less but not repayable on demand	325,179	0	325,179	0
1 year or less but over 3 months	976,987	710,661	976,987	697,876
5 years or less but over 1 year	843,713	1,046,382	843,713	1,046,343
Over 5 years	39,686	34,551	37,686	32,551
	<u>2,185,565</u>	<u>1,791,594</u>	<u>2,183,565</u>	<u>1,776,770</u>

**17. INVESTMENT IN ASSOCIATED COMPANY**

	<b>The Group and the Bank</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	5,761	5,761
Advances	16,856	20,147
Less: provision for diminution in value	(5,761)	(5,761)
	<u>16,856</u>	<u>20,147</u>
	<u><u>16,856</u></u>	<u><u>20,147</u></u>

The Bank owns 40% of the issued share capital of IBA Finance Corporation, which is incorporated in the Philippines. The principal activity of the associated company is the provision of financing and leasing services in the Philippines. The Bank has not equity accounted for the investment in the associated company in view of the immaterial amount involved.

**18. INVESTMENT IN SUBSIDIARIES**

	<b>The Bank</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost		
At 1 January	130,811	130,811
Disposal of a subsidiary	(43,665)	0
	<u>87,146</u>	<u>130,811</u>
At 31 December	<u><u>87,146</u></u>	<u><u>130,811</u></u>



**18. INVESTMENT IN SUBSIDIARIES (continued)**

All principal subsidiaries are directly owned by the Bank. Details of principal subsidiaries, all of which are private companies (except for International Bank of Asia (Trustee) Limited, which is a public company) at 31 December 1999 are as follows:

	<u>Issued and fully paid-up ordinary share capital</u>	<u>% of issued share capital held</u>	<u>Principal activities</u>
<b>Incorporated and operating in Hong Kong</b>			
IBA Credit Limited	HK\$65,000,000	100%	Deposit-taking and finance
International Bank of Asia (Trustee) Limited	HK\$3,000,000	100%	Trustee services
IBA Securities Limited	HK\$8,000,000	100%	Securities broking
IBA Fund Management Limited	HK\$8,000,000	100%	Fund management
Mars (Nominees) Limited	HK\$200	100%	Nominees services
<b>Incorporated and operating in Vanuatu</b>			
IBA Bank Limited	US\$10,000	100%	Finance

**19. PREMISES AND EQUIPMENT****THE GROUP**

	<b>Premises</b> HK\$'000	<b>Equipment</b> HK\$'000	<b>Other</b> HK\$'000	<b>Total</b> HK\$'000
<b>Cost or valuation</b>				
At 1 January 1999	1,074,912	206,298	5,725	1,286,935
Addition	0	22,317	845	23,162
Disposals				
– of subsidiary	0	(3,067)	(3,725)	(6,792)
– others	0	(1,384)	0	(1,384)
At 31 December 1999	<u>1,074,912</u>	<u>224,164</u>	<u>2,845</u>	<u>1,301,921</u>
<b>Accumulated depreciation</b>				
At 1 January 1999	32,838	78,068	5,725	116,631
Charge for the year	11,256	23,217	14	34,487
Released on disposal				
– of subsidiary	0	(2,571)	(2,894)	(5,465)
– others	0	(1,331)	0	(1,331)
At 31 December 1999	<u>44,094</u>	<u>97,383</u>	<u>2,845</u>	<u>144,322</u>
<b>Net book value</b>				
At 31 December 1999	<u>1,030,818</u>	<u>126,781</u>	<u>0</u>	<u>1,157,599</u>
At 31 December 1998	<u>1,042,074</u>	<u>128,230</u>	<u>0</u>	<u>1,170,304</u>

**19. PREMISES AND EQUIPMENT** *(continued)***THE BANK**

	<b>Premises</b> HK\$'000	<b>Equipment</b> HK\$'000	<b>Other</b> HK\$'000	<b>Total</b> HK\$'000
<b>Cost or valuation</b>				
At 1 January 1999	1,038,163	202,362	2,845	1,243,370
Addition	0	22,268	0	22,268
Disposals	0	(1,384)	0	(1,384)
At 31 December 1999	<u>1,038,163</u>	<u>223,246</u>	<u>2,845</u>	<u>1,264,254</u>
<b>Accumulated depreciation</b>				
At 1 January 1999	31,713	74,913	2,845	109,471
Charge for the year	10,931	23,079	0	34,010
Released on disposal	0	(1,331)	0	(1,331)
At 31 December 1999	<u>42,644</u>	<u>96,661</u>	<u>2,845</u>	<u>142,150</u>
<b>Net book value</b>				
At 31 December 1999	<u>995,519</u>	<u>126,585</u>	<u>0</u>	<u>1,122,104</u>
At 31 December 1998	<u>1,006,450</u>	<u>127,449</u>	<u>0</u>	<u>1,133,899</u>

Premises are long-term lease-hold land and buildings in Hong Kong. Certain of these premises have been included in the accounts at their November 1989 valuation of HK\$83,100,000 (1998: HK\$83,100,000). In preparing these accounts, advantage has been taken of the transitional provisions in paragraph 72 of Statement of Standard Accounting Practice 17 "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants with the effect that premises have not been revalued to fair value at the balance sheet date. It is not the Directors' present intention to revalue the premises in the future.

**20. LIABILITIES OF CUSTOMERS FOR ENGAGEMENTS**

Liabilities of customers for engagements are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contracts be fully drawn upon and the clients default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements. Their contractual and risk weighted amounts are as follows:

	<b>The Group</b>				
	1999		1998		
	Contractual	Risk	Contractual	Risk	
	Amounts	Weighted	Amounts	Weighted	
	HK\$'000	Amounts	Amounts	HK\$'000	HK\$'000
Direct credit substitutes	72,260	72,260	137,957	137,957	
Transaction-related contingencies	16,621	8,311	39,721	19,861	
Trade-related contingencies	214,658	42,474	203,802	40,760	
Trade bills for collection and shipping guarantees	56,258	0	86,947	0	
	<u>359,797</u>	<u>123,045</u>	<u>468,427</u>	<u>198,578</u>	

	<b>The Bank</b>				
	1999		1998		
	Contractual	Risk	Contractual	Risk	
	Amounts	Weighted	Amounts	Weighted	
	HK\$'000	Amounts	Amounts	HK\$'000	HK\$'000
Direct credit substitutes	79,852	79,852	145,560	145,560	
Transaction-related contingencies	16,621	8,311	39,721	19,861	
Trade-related contingencies	228,860	43,042	207,123	40,893	
Trade bills for collection and shipping guarantees	56,258	0	86,947	0	
	<u>381,591</u>	<u>131,205</u>	<u>479,351</u>	<u>206,314</u>	

## 21. DEPOSITS AND BALANCES OF OTHER BANKS

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Repayable on demand	3,435	18,916	3,435	18,916
3 months or less but not repayable on demand	86,484	997,036	86,484	997,036
	<u>89,919</u>	<u>1,015,952</u>	<u>89,919</u>	<u>1,015,952</u>

## 22. CURRENT, FIXED AND OTHER DEPOSITS OF CUSTOMERS

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Repayable on demand	1,924,173	2,496,656	1,923,795	2,496,892
3 months or less but not repayable on demand	16,030,094	14,822,405	15,504,980	14,006,528
1 year or less but over 3 months	968,187	1,258,945	968,187	1,066,412
5 years or less but over 1 year	12,549	4,000	12,549	4,000
	<u>18,935,003</u>	<u>18,582,006</u>	<u>18,409,511</u>	<u>17,573,832</u>

**23. CERTIFICATES OF DEPOSIT ISSUED**

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
3 months or less but not repayable on demand	0	100,000	0	100,000
1 year or less but over 3 months	888,428	1,010,164	888,428	1,010,164
5 years or less but over 1 year	11,657	886,674	11,657	886,674
	<u>900,085</u>	<u>1,996,838</u>	<u>900,085</u>	<u>1,996,838</u>

**24. OTHER ACCOUNTS AND PROVISIONS**

Included under this heading are taxation, other provisions and the proposed dividend payable of HK\$35,164,800 (1998: HK\$11,721,600).

**25. SHARE CAPITAL**

	1999 HK\$'000	1998 HK\$'000
<i>Authorised</i>		
1,406,592,000 (1998: 1,406,592,000) ordinary shares of HK\$1 each	<u>1,406,592</u>	<u>1,406,592</u>
<i>Issued and fully paid</i>		
1,172,160,000 (1998: 1,172,160,000) ordinary shares of HK\$1 each	<u>1,172,160</u>	<u>1,172,160</u>

**26. SHARE PREMIUM**

	<b>The Group and the Bank</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
At 1 January	<b>749,778</b>	385,306
Premium arising from Rights Issue	<b>0</b>	372,960
Expenses charged against Share Premium	<b>0</b>	(8,488)
	<hr/>	<hr/>
At 31 December	<b><u>749,778</u></b>	<b><u>749,778</u></b>

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

**27. RESERVES****THE GROUP**

	<b>Capital redemption reserve</b>	<b>Retained earnings</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
At 1 January 1999	372,000	1,015,256	1,387,256
Profit after tax	0	23,838	23,838
Dividends paid and proposed	0	(58,608)	(58,608)
	<hr/>	<hr/>	<hr/>
At 31 December 1999	<b><u>372,000</u></b>	<b><u>980,486</u></b>	<b><u>1,352,486</u></b>

**THE BANK**

	<b>Capital redemption reserve</b>	<b>Retained earnings</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
At 1 January 1999	372,000	792,161	1,164,161
Profit after tax	0	58,861	58,861
Dividends paid and proposed	0	(58,608)	(58,608)
	<hr/>	<hr/>	<hr/>
At 31 December 1999	<b><u>372,000</u></b>	<b><u>792,414</u></b>	<b><u>1,164,414</u></b>

**27. RESERVES (continued)**

- (a) Capital redemption reserve arose from the redemption of the Bank's "A" and "B" preference shares in 1991 and 1992 out of its retained earnings. The capital redemption reserve is undistributable under Hong Kong Companies Ordinance section 79 C(2) but may be applied by the Bank in paying up its unissued shares to be allotted to its members as fully paid bonus shares.
- (b) Total distributable reserves of the Group and the Bank amounted to HK\$980,486 (1998: HK\$1,015,256) and HK\$792,414 (1998: HK\$792,161) respectively.

**28. FINANCE LEASES AND HIRE PURCHASE CONTRACTS**

Included in advances to customers are amounts due from lessees and due on hire purchase contracts.

The net investment in finance leases and hire purchase contracts is as follows:

	<b>The Group</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
(a) Finance Leases	312,666	453,042
(b) Hire purchase contracts	593,802	878,259
	<u>906,468</u>	<u>1,331,301</u>

Aggregate rentals receivable for the year amounted to:

	<b>The Group</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
(a) Finance Leases	261,821	398,492
(b) Hire purchase contracts	497,301	772,510
	<u>759,122</u>	<u>1,171,002</u>

**28. FINANCE LEASES AND HIRE PURCHASE CONTRACTS** *(continued)*

Cost of assets acquired for the purpose of letting under finance leases and hire purchase contracts are:

	<b>The Group</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
(a) Finance Leases	<b>762,114</b>	1,003,123
(b) Hire purchase contracts	<b>1,687,092</b>	2,370,007
	<u><b>2,449,206</b></u>	<u>3,373,130</u>

**29. MATERIAL RELATED PARTY TRANSACTIONS**

During the year the Group entered into a number of transactions with its ultimate holding company and another major shareholder, China Everbright Limited and its subsidiaries, in the ordinary course of its banking business including, inter alia, lending, the acceptance and placement of interbank deposits, participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The contracts were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to other counterparties and customers of the Group. In the opinion of the directors these transactions were conducted on normal commercial terms.

Information relating to income and expense from related party transactions during the year and balances outstanding as at the balance sheet date is set out below:

	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
(a) Income/(expense)		
Interest income	<b>9,468</b>	40,825
Interest expense	<b>(28,977)</b>	(101,824)
	<u><b>(19,509)</b></u>	<u>(60,999)</u>



**29. MATERIAL RELATED PARTY TRANSACTIONS** *(continued)*

	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
(b) Assets		
<i>Ultimate holding company</i>		
Short term funds	<b>166,465</b>	612,844
Accrued interest and other accounts	<b>2,751</b>	2,488
	<hr/>	<hr/>
Due from ultimate holding company	<b>169,216</b>	615,332
	<hr/>	<hr/>
<i>Other related parties</i>		
Loans and advances to customers	<b>38,000</b>	40,000
Accrued interest and other accounts	<b>17</b>	10
	<hr/>	<hr/>
Due from other related parties	<b>38,017</b>	40,010
	<hr/>	<hr/>
Total receivable	<b>207,233</b>	655,342
	<hr/> <hr/>	<hr/> <hr/>
(c) Liabilities		
<i>Ultimate holding company</i>		
Deposits and balances with other banks	<b>708</b>	859,312
Other accounts and provisions	<b>0</b>	13,153
	<hr/>	<hr/>
Due to ultimate holding company	<b>708</b>	872,465
	<hr/>	<hr/>
<i>Other related parties</i>		
Current, fixed and other deposits of customers	<b>50,000</b>	0
Other accounts and provisions	<b>472</b>	0
	<hr/>	<hr/>
Due to other related parties	<b>50,472</b>	0
	<hr/>	<hr/>
Total payable	<b>51,180</b>	872,465
	<hr/> <hr/>	<hr/> <hr/>

### 30. LOANS TO OFFICERS

The aggregate amount of loans made by the Group and the Bank disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

	1999 HK\$'000	1998 HK\$'000
At 31 December	<u>19,551</u>	<u>21,118</u>
Maximum during the year	<u>21,594</u>	<u>23,055</u>

### 31. RETIREMENT SCHEME

The Group operates a retirement scheme, which incorporates a defined benefits plan, for all its full-time employees. Calculation of contributions is based on Scheme Salary of a Member of the scheme which is defined as the basic monthly salary excluding commission and bonuses. Contributions by the Group include a "Basic Contribution" equal to 5% of Scheme Salary for Non-contributory Members and 10% for Contributory Members plus a supplementary "Normal Contribution" to the Scheme at a rate recommended by the Trustee on the advice of an independent Actuary taking into consideration contributions in respect of employees who have left the scheme prior to full vesting.

The latest actuarial valuation was taken on 30 June 1997 by a qualified actuary who was on the staff of William M. Mercer Limited. The actuarial method used in the valuation to determine the required contribution rate is the "Projected Unit Credit Cost" method. The major assumptions affecting the actuarial cost is the difference between:

- (a) the rate of investment return; and
- (b) the rate of future salary increases (rather than the absolute level of either).

Based on the 30 June 1997 ("Valuation Date") actuarial valuation, the Scheme is solvent, with Scheme assets exceeding vested liabilities by some 24%. However, when compared to the past service liabilities, the Scheme assets are only sufficient to cover 95% of the liabilities. In the opinion of the actuary, the past service liabilities shortfall of the scheme amounted to HK\$5,143,000 as at the Valuation Date. The actuary recommends the employers to contribute at 6% and 11% of annual total scheme salary for non-contributory members and contributory members respectively for the first 2.5 years after the Valuation Date and thereafter at 6% and 10% respectively to eliminate this shortfall. Based on the recommendation of the actuary, the Group contributed at 6% and 11% of annual total scheme salary for non-contributory members and contributory members respectively for the Valuation Date.

**32. OUTSTANDING COMMITMENTS**

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
(a) Capital commitments contracted but not provided for:	<u>0</u>	<u>6,890</u>	<u>0</u>	<u>6,890</u>

(b) Operating lease commitments in respect of land and buildings at the balance sheet date payable within one year are as follows:

	The Group		The Bank	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Leases expiring:				
Within one year	549	1,688	549	1,688
Between one and five years	11,651	9,473	11,651	9,473
Over five years	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,661</u>
	<u>12,200</u>	<u>11,161</u>	<u>12,200</u>	<u>12,822</u>

### 33. OFF-BALANCE SHEET EXPOSURES

Off-balance sheet exposures are made up as follows:

The Group	Contractual Amounts HK\$'000	1999	Replacement Costs HK\$'000
		Risk Weighted Amounts HK\$'000	
Undrawn loan facilities			
– with an original maturity of under 1 year or which are unconditionally cancellable	4,719,567	0	N/A
– with an original maturity of 1 year and over	249,887	124,944	N/A
Forward forward deposits placed	5,868	1,174	N/A
Financial instruments			
– Forward exchange contracts	1,147,901	3,192	382
– Cross currency swaps	621,680	1,243	0
– Forward interest rate contracts	0	0	0
– Interest rate swaps	0	0	0
– Leverage deposits contracts	373,536	0	40,384
– Currency options purchased	3,137	16	0
	<u>7,121,576</u>	<u>130,569</u>	<u>40,766</u>

	Contractual Amounts HK\$'000	1998	Replacement Costs HK\$'000
		Risk Weighted Amounts HK\$'000	
Undrawn loan facilities			
– with an original maturity of under 1 year or which are unconditionally cancellable	4,627,654	0	N/A
– with an original maturity of 1 year and over	309,205	154,603	N/A
Forward forward deposits placed	354,359	70,872	N/A
Financial instruments			
– Forward exchange contracts	1,538,554	17,134	49,011
– Cross currency swaps	774,520	6,506	0
– Forward interest rate contracts	133,797	0	1
– Interest rate swaps	501,307	4	0
– Leverage deposits contracts	364,283	0	18,369
– Revolving underwriting facilities	116,178	58,089	N/A
	<u>8,719,857</u>	<u>307,208</u>	<u>67,381</u>

**33. OFF-BALANCE SHEET EXPOSURES** (continued)

The Bank	Contractual Amounts HK\$'000	1999	Replacement Costs HK\$'000
		Risk Weighted Amounts HK\$'000	
Undrawn loan facilities			
– with an original maturity of under 1 year or which are unconditionally cancellable	4,717,567	0	N/A
– with an original maturity of 1 year and over	237,817	118,909	N/A
Forward forward deposits placed	5,868	1,174	N/A
Financial instruments			
– Forward exchange contracts	1,158,893	3,251	565
– Cross currency swaps	621,680	1,243	0
– Forward interest rate contracts	0	0	0
– Interest rate swaps	0	0	0
– Leverage deposits contracts	373,536	0	40,384
– Currency options purchased	3,137	16	0
	<u>7,118,498</u>	<u>124,593</u>	<u>40,949</u>
		1998	
		Risk	
	Contractual	Weighted	Replacement
	Amounts	Amounts	Costs
	HK\$'000	HK\$'000	HK\$'000
Undrawn loan facilities			
– with an original maturity of under 1 year or which are unconditionally cancellable	4,625,654	0	N/A
– with an original maturity of 1 year and over	305,884	152,942	N/A
Forward forward deposits placed	354,359	70,872	N/A
Financial instruments			
– Forward exchange contracts	1,538,554	17,134	49,011
– Cross currency swaps	774,520	6,506	0
– Forward interest rate contracts	133,797	0	1
– Interest rate swaps	501,307	4	0
– Leverage deposits contracts	364,283	0	18,369
– Revolving underwriting facilities	116,178	58,089	N/A
	<u>8,714,536</u>	<u>305,547</u>	<u>67,381</u>

**33. OFF-BALANCE SHEET EXPOSURES** *(continued)*

The replacement costs and credit risk weighted amounts of the above off-balance sheet exposures do not take into account the effects of bilateral netting arrangements.

The table above gives the contractual amounts, replacement cost and credit risk-weighted amounts of off-balance sheet transactions. These are assessed in accordance with the Hong Kong Monetary Authority's guidelines which implement the Basle agreement on capital adequacy and depend on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments, and from 0% to 50% for exchange rate and interest rate contracts. Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market. The credit risk-weighted amount refers to the amount as computed in accordance with the Third Schedule to the Banking Ordinance.

Off-balance sheet financial instruments arise from forward and swap transactions undertaken by the Group and the Bank in the foreign exchange and interest rate markets. The contractual amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amount at risk.

The above financial instruments represent transactions that are substantially all initiated in response to customer demands and no significant positions are maintained by the Group or the Bank.

**34. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	1999 HK\$'000	1998 HK\$'000
Profit before taxation	21,840	98,357
Interest expense on floating rate certificates of deposit	92,634	199,187
Depreciation	34,487	30,139
Loss on disposal of fixed assets	53	233
Profit on disposal of a subsidiary	(1,679)	0
Dividends received from investments	(1,319)	(2,311)
Profit on sale of long term investment	0	(8,992)
Specific provision written off during the year	(247,843)	(99,120)
Charge for bad debts	373,833	339,398
Increase in short-term funds with original maturity of over 3 months	(94,040)	(35,693)
Increase in placements maturing in over 1 month	(192,305)	(55,693)
(Increase)/Decrease in trade bills and certificates of deposit	(133,095)	66,078
Decrease in advances to customers	2,282,537	3,560,945
Decrease in accrued interest and other accounts	(416,028)	(68,029)
Increase/(Decrease) in customer deposits	276,307	(2,040,896)
Increase/(Decrease) in other accounts and provisions	210,515	(110,425)
	<u>2,205,897</u>	<u>1,873,178</u>

**35. NET CASH OUTFLOW FROM FINANCING ACTIVITIES**

	1999 HK\$'000	1998 HK\$'000
Floating rate certificates of deposits in issue at 1 January	1,996,838	3,453,283
Floating rate certificates of deposits redeemed during the year	<u>(1,096,753)</u>	<u>(1,456,445)</u>
Floating rate certificates of deposits in issue at 31 December	<u><u>900,085</u></u>	<u><u>1,996,838</u></u>

**36. SALE OF SUBSIDIARY**

	1999 HK\$'000
(a) Net assets disposed of	
Fixed assets	1,327
Cash at bank and in hand	605
Investment	36,017
Net current asset	25,546
Profit on disposal	<u>1,679</u>
	<u><u>65,174</u></u>
(b) Net cash inflow from disposal of a subsidiary	
Cash net of related expenses	65,174
Less: Cash at bank and in hand	<u>(605)</u>
	<u><u>64,569</u></u>
(c) Satisfied by:	
Cash net of related expenses	<u><u>65,174</u></u>

The business sold during the year contributed HK\$19,969,116 of the Group's net operating cash flows, received HK\$4,901,357 in respect of net returns on investment and servicing of finance, received HK\$19,155,000 from investing activities.

### 37. COMPARATIVE FIGURES

The presentation and classification of items in the accounts have been changed due to the adoption of the requirements of SSAP 1 (revised) "Presentation of financial statements", SSAP 24 "Accounting for investments in securities" and the Guideline on "Financial Disclosure by Locally Incorporated Authorised Institutions" ("the Guideline") issued by the Hong Kong Monetary Authority. As a result, long-term investments, treasury bills and certificates of deposits have been analysed into investments in held-to-maturity securities, trading securities and non-trading securities as required by SSAP 24 and the Guideline and additional line items have been included on the face of the consolidated profit and loss account and the balance sheets as required by SSAP 1 (revised), such as other revenue. Comparative figures have been reclassified to conform with the current years



## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### (a) Capital adequacy and liquidity ratios

	1999	1998
	%	%
Unadjusted capital adequacy ratio as at 31 December	<b>22.38</b>	19.12
Average liquidity ratio for December	<b>48.50</b>	48.71
Average liquidity ratio for the year	<b>48.21</b>	39.57

The unadjusted capital adequacy ratio is computed on a consolidated basis as required by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Third Schedule of the Banking Ordinance.

The Bank meets all of the *de minimis* exemption criteria for reporting market risk as set out in the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority and is not required to maintain capital against market risk. Hence, the Bank is exempted from disclosing the adjusted capital adequacy ratio computed in accordance with the mentioned Guideline.

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The average liquidity ratio for the year is computed as the simple average of each calendar month's average ratio, as reported in Part I (2) of the "Return of Liquidity Position of an Authorized Institution" (MA(BS)1E) calculated in accordance with the Fourth Schedule of the Banking Ordinance.

- (b) The components of the total capital base after deductions as reported under Part I of the Capital Adequacy Return (MA(BS)3) calculated in accordance with the Third Schedule of the Banking Ordinance.

**Consolidated as at 31 December**

	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
Core capital		
Paid up ordinary share capital	<b>1,172,160</b>	1,172,160
Reserves and share premium	<b>2,023,068</b>	2,014,018
Minority interests	<b>0</b>	0
Others	<b>(31,568)</b>	9,050
Deduct: Goodwill	<b>0</b>	0
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	<b>38,410</b>	38,410
General reserves for doubtful debts	<b>93,749</b>	156,859
Irredeemable cumulative preference shares	<b>0</b>	0
Term subordinated debt	<b>0</b>	0
Term preference shares	<b>0</b>	0
Others	<b>0</b>	0
	<hr/>	<hr/>
<b>Total capital base before deductions</b>	<b>3,295,819</b>	3,390,497
Deductions for total capital base	<b>(43,762)</b>	(110,290)
	<hr/>	<hr/>
<b>Total capital base after deductions</b>	<b><u>3,252,057</u></b>	<b><u>3,280,207</u></b>

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(c) **Segmental information**

(i) *By geographical area*

The information by geographic areas is based on the locations of the principal operations of the subsidiaries or on the location of the branches of the Bank responsible for reporting the results or booking the assets. For both 1998 and 1999, all of the Group's profit before taxation was generated by assets booked by the principal operations of the branches and subsidiaries of the Bank located in Hong Kong, while more than 90% of assets were extended to companies and individuals domiciled in Hong Kong, the balance being domiciled in China.

*(ii) By classes of business*

The Bank and its subsidiaries are principally engaged in the provision of banking and related financial services. Below is a breakdown of total operating income (net of interest expense) in percentage terms by classes of business:

<b>By Classes of Business</b> <i>(In percentage terms)</i>	<b>Total operating income (net of interest expense)</b>	
	<b>1999</b> %	1998 %
Retail Banking	<b>41</b>	36
Credit Card	<b>25</b>	18
Corporate Banking	<b>13</b>	17
China	<b>(1)</b>	7
Leasing	<b>11</b>	8
Investment Banking	<b>10</b>	10
Others	<b>1</b>	4
	<b>100</b>	100
	<b>100</b>	100

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**(d) Major customers**

Total income attributable to the Group's five largest customers combined is less than 30% of the Group's total income for both years 1998 and 1999.



(f) **Reconciliation between overdue gross advances and advances to customers on which interest is placed in suspense**

	<b>The Group</b>	
	As at <b>31 December</b> <b>1999</b> <b>HK\$'000</b>	As at 31 December 1998 HK\$'000
<b>Overdue gross advances to customers</b>	<b>1,098,776</b>	743,693
<i>Less: Interest accrual overdue gross advances</i>	<u><b>(358,565)</b></u>	<u>(170,939)</u>
Overdue gross advances to customers on which interest is placed in suspense	<u><b>740,211</b></u>	<u>572,754</u>
Interest non-accrual but not overdue gross advances	<b>348,375</b>	206,389
<i>Less: Interest non-accrual rescheduled advances</i>	<u><b>(338,409)</b></u>	<u>0</u>
Interest non-accrual but not overdue gross advances net of interest non-accrual rescheduled advances	<u><b>9,966</b></u>	<u>206,389</u>
<b>Advances to customers on which interest is placed in suspense</b>	<u><b>750,177</b></u>	<u><b>779,143</b></u>

## (g) Rescheduled advances to customers

	The Group			
	As at 31 December 1999		As at 31 December 1998	
Amount of rescheduled gross advances to customers <sup>a</sup>	HK\$'000	% of gross advances	HK\$'000	% of gross advances
Interest accrual rescheduled advances	377,721	2.69	211,660	1.30
Interest non-accrual rescheduled advances	338,409	2.41	0	0.00
	<u>716,130</u>	5.10	<u>211,660</u>	1.30
Amount of collateral held in respect of gross advances	<u>226,989</u>		<u>212,470</u>	
Secured rescheduled advances	160,129		145,618	
Unsecured rescheduled advances	<u>556,001</u>		<u>66,042</u>	
	<u>716,130</u>		<u>211,660</u>	
Amount of specific reserves made against gross advances	<u>202,636</u>		<u>0</u>	

<sup>a</sup> Net of rescheduled advances which have been overdue for over three months and was reported in Note (e) Overdue Advances to Customers.

**(h) Advances to customers – by industry sectors**

The information concerning advances to customers by industry sectors has been classified in accordance with the industry categories contained in the banking returns on “Quarterly Analysis of Loans and Advances and Provisions (MA(BS)2A)” and “Assets and Liabilities of an Authorized Institution (MA(BS)1)” submitted to the Hong Kong Monetary Authority.

	1999 HK\$'000	1998 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	551,175	824,923
– Property investment	2,971,449	2,233,920
– Financial concerns	573,506	587,061
– Stockbrokers	23,922	19,629
– Wholesale and retail trade	143,308	175,116
– Manufacturing	688,030	1,060,389
– Transport and transport equipment	236,837	300,694
– Others	1,119,453	1,414,363
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme and Private Sector Participation Scheme	171,096	169,094
– Loans for the purchase of other residential properties	3,352,657	4,258,612
– Credit card advances	631,262	721,677
– Others	2,303,453	2,813,029
Trade finance	691,958	1,240,493
Loans for use outside Hong Kong	570,238	491,881
	<u>14,028,344</u>	<u>16,310,881</u>

**(i) Risk management**

The Group has established policies and procedures for risk management which are reviewed regularly by the Management and various management committees including the Asset and Liability Committee, Credit Committee, Credit Policy Committee, Classified Loan Committee and Audit Committee.

*(i) Credit Risk Management*

Credit risk arises from the potential that a borrower or counter-party will fail to perform on an obligation. It arises from the trade finance, lending, derivatives, treasury and other normal banking activities undertaken by the Group.

Credit approval is conducted in accordance with the Group's credit policy which defines the credit extension criteria, the credit approval and monitoring processes, the loan classification system and provisioning policy. The credit policy also takes into account the requirements of the Banking Ordinance and the guidelines issued by the Hong Kong Monetary Authority with respect to large exposures and provisioning requirements.

The Executive Committee of the Board has been delegated the power to approve credits on behalf of the Board. The Chief Executive Officer, who has been delegated by the Board a lower credit approval authority than the Executive Committee, has in turn delegated lower authorities to the Credit Committee. Approval takes into account the type of loans, the tenor of the loan, repayment ability of the prospective borrower and available security. Performance is monitored through reports submitted to the Chief Executive Officer to whom or as well as the Internal Control Department and the external auditors.

(ii) *Liquidity Risk Management*

Liquidity risk is the risk that not enough cash will be generated from either assets or liabilities to meet deposit withdrawals or contractual loan funding. To manage liquidity risk, the Group has established the liquidity management policy which is reviewed by the Management and approved by the Board of Directors as well as the Hong Kong Monetary Authority. The Group measures the liquidity of the Group through statutory liquidity ratio, loan-to-deposit ratio and the currency/maturity mismatch portfolio.

The Asset and Liability Committee closely monitors the liquidity position of the Group to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding needs and that the statutory liquidity is always complied with. As disclosed in Note (a) above, the Group's consolidated liquidity ratio of 48.50% for December and the average liquidity ratio of 48.21% for the year 1999 was well above the statutory minimum ratio of 25%.

(iii) *Capital Management*

The Group's intention is to maintain a strong capital base to support the development of the Group's operations prudently, with the aim of diversifying its business activities, including the future expansion of the branch network, increasing the customer base, introducing new financial products and meeting the statutory capital adequacy ratio. As disclosed in Note (a) above, the Group's unadjusted consolidated capital adequacy ratio of 22.38% as at 31 December 1999 was already well above the statutory minimum ratio of 8%.

(iv) *Market Risk*

Market risk is the risk arising from the net effect of changes in market rates and prices, such as interest rates and foreign exchange rates on the Bank's assets, liabilities and commitments, thus causing profits or losses.



Interest rate risk is the risk that changes in prevailing interest rates will adversely affect assets, liabilities, capital, income, and/or expense at different times or in different amounts. Interest rate risk can further decimate into repricing risk, basis risk, yield curve risk and option risk.

The Bank's market risk originates from its open position in foreign exchange. The Bank's trading activities on derivative instruments mainly arise from the execution of trade orders from customers and positions taken in order to hedge the Bank's opened position. The Bank does not engage in proprietary trading of foreign exchange, but merely executes customer orders.

The Bank's maximum market risk exposures are set by the Management. The Bank has not used derivative instruments. Exposures are measured and monitored on the basis of principal (or notional) amount, outstanding position and stop-loss limit, and are controlled by the Bank's Asset and Liability Committee within the limits approved by the Management in aggregate. The Bank's Internal Control Department is responsible for monitoring compliance with the market risk management policies by the business units. The Bank considers that the market risk arising from its open position, if any, is *immaterial* as the Bank meets all of the *de minimis* exemption criteria for reporting market risk as set out in the guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority.

# BANKING SERVICES

## 銀行服務

### CONSUMER BANKING SERVICES

#### Deposit Products

- Current Accounts
- Savings Accounts
- Fixed Deposit Accounts
- Multi-currency Call Deposit
- MultiPlus Account
- Target Savings Plan
- Upfront Interest Deposit Plan
- MaxiYield Deposit Plan
- Senior Citizen Deposit Plan
- Children Savings Plan

#### Loan Products

- Housing Loan Services
- “Fin.Easy” Revolving Personal Loan
- Pledge of Deposit
- Share Margin Financing
- Tax Loan
- Installment Personal Loan

#### Phone Banking Service

#### Credit Card Services

- VISA Gold and Classic
- VISA Platinum
- MasterCard Gold and Classic
- MyCard
- VISA Family Card
- Photo Card
- Co-brand / Affinity Cards
- MasterCard Picture Card
- Corporate Card
- Merchant Business
- Purchase Installment Plan

### CORPORATE BANKING SERVICES

#### Corporate Banking

- Working capital loans
- Trade financing
- Syndicated loans
- Asset-backed financing
- Project financing
- Structured financing

#### China Business

- Trade finance
- Project financing
- Export collection services
- Syndicated loans

### 銀行服務

#### 存款產品

- 往來戶口
- 儲蓄戶口
- 定期存款戶口
- 綜合貨幣定期戶口
- 「萬滙」理財戶口
- 「點滴致富」儲蓄計劃
- 現利理財戶口
- 「智多息」港元定存
- 「定耆樂」定存計劃
- 「兒同樂」儲蓄計劃

#### 貸款產品

- 「供得喜」樓宇按揭服務
- 「簡易你財」循環貸款
- 存款抵押
- 股票按揭
- 稅務貸款
- 「爽手錢」私人貸款

#### 電話銀行服務

#### 信用卡服務

- VISA金卡及普通卡
- VISA白金卡
- 萬事達金卡及普通卡
- MyCard
- VISA尊姓卡
- 相片信用卡
- 多款特色聯營卡
- 萬事達相片卡
- 公司信用卡
- 商戶服務
- 購物保障計劃

### 企業銀行服務

#### 企業銀行

- 營運資金貸款
- 貿易融資
- 銀團貸款
- 資產抵押融資
- 項目融資
- 組合融資

#### 中國貿易

- 貿易融資
- 項目融資
- 出口托收服務
- 銀團貸款

### Hire Purchase & Leasing

- Production machinery
- Office equipment
- Medical and dental instruments
- Barges, tug-boats and pleasure boats
- Private cars, goods vehicles and passenger cars
- Car park mortgage loans
- Business loans
- Personal loans

### 租購及租賃

- 

## INVESTMENT BANKING SERVICES

### IBA Ambassador Privileged Banking/ Private Banking

- Personal and privileged financial management
- Investment advisory
- Investment products
- Deposit services
- Offshore deposits
- Mortgages
- Personal credit facilities

### Securities Investment

- Securities dealing
- Share margin financing
- Nominee and custodial services
- Teleshare enquiry service
- Investment centers

### Unit Trusts

- Unit trusts investment services
- MyMoneywise Investment Plan
- Portfolio management

### International Business

- Deposit services
- Syndicated loans
- Project finance
- Capital markets
- Off-shore financing
- Islamic banking

### Financial Institutions

- Correspondent banking
- Remittances
- L/C confirmation
- Agency services

## TREASURY PRODUCTS

Leveraged Deposit  
Foreign Exchange Margin Account  
Spot Foreign Exchange  
Forward Foreign Exchange

## IBA SWISS PRIVILEGE

Financial Planning  
Insurance  
Investment  
Trust Services

# IBA DIRECTORY

## 港基銀行網絡

### HEAD OFFICE

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38 Des Voeux Road Central  
Central, Hong Kong  
Tel : (852) 2842 6222  
Fax : (852) 2810 1483  
E-mail : corpcomm@iba.com.hk  
Website : www.iba.com.hk

### BRANCHES

#### Hong Kong Island

Central  
Causeway Bay  
Chaiwan  
Happy Valley  
Hennessy Road  
Kennedy Town  
Percival Street  
Queen's Road East  
Taikoo Shing  
Wanchai  
North Point

#### Kowloon

Cheung Sha Wan  
Hung Hom  
Jordan Road  
Mongkok  
Richland Gardens  
Sham Shui Po  
Tsimshatsui  
Whampoa Garden  
Ngau Tau Kok

#### New Territories

Mei Foo Sun Chuen  
Shatin Centre  
Tai Po  
Tai Wai  
Tsuen Wan  
Tai Ho Road (Tsuen Wan)  
Yuen Long  
Tuen Mun

### PRINCIPAL SUBSIDIARIES

IBA Credit Limited  
IBA Fund Management Limited  
Mars (Nominees) Limited  
IBA Bank Limited (Vanuatu)  
IBA Securities Limited

### OVERSEAS PRESENCE

IBA Finance Corporation (Manila, Philippines)  
IBA Vietnam Representative Office  
(Ho Chi Minh City, Vietnam)

### 總行

香港中環德輔道中38號  
港基國際銀行大廈  
電話：(852) 2842 6222  
傳真：(852) 2810 1483  
電郵地址：corpcomm@iba.com.hk  
網址：www.iba.com.hk

### 分行網絡

#### 港島

中環  
銅鑼灣  
柴灣  
跑馬地  
軒尼詩道  
堅尼地城  
波斯富街  
皇后大道東  
太古城  
灣仔  
北角

#### 九龍

長沙灣  
紅磡  
佐敦道  
旺角  
麗晶花園  
深水埗  
尖沙咀  
黃埔花園  
牛頭角

#### 新界

美孚新邨  
沙田中心  
大埔  
大圍  
荃灣  
大河道(荃灣)  
元朗  
屯門

### 主要附屬公司

港基國際財務有限公司  
港基國際資金管理有限公司  
Mars (Nominees) Limited  
IBA Bank Limited (Vanuatu)  
港基國際證券有限公司

### 海外業務

IBA Finance Corporation (菲律賓馬尼拉)  
港基國際銀行越南代辦處  
(越南胡志明市)

# ABC DIRECTORY

## 阿拉伯銀行集團網絡

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### HEAD OFFICE

ABC Tower, Diplomatic Area, PO Box 5698, Manama, Bahrain  
Tel: (973) 543000 (General)  
Fax: (973) 533163/533062  
Website: www.arabbanking.com

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### ARAB WORLD DIVISION

#### Branch

- Tunis, Tunisia

#### Representative Offices

- Abu Dhabi, UAE
- Cairo, Egypt
- Casablanca, Morocco
- Tehran, Islamic Republic of Iran
- Tripoli, Libya

#### Subsidiaries

- ABC Islamic Bank (E.C.) (Manama, Bahrain)
- ABC Securities W.L.L. (Manama, Bahrain)
- Arab Banking Corporation, Jordan (Amman, Jordan)
- Arab Banking Corporation, Algeria (Algiers, Algeria)
- Arab Banking Corporation, Egypt (Cairo, Egypt)
- Arab Banking Corporation, Tunisia (Tunis, Tunisia)

#### Affiliate

- Arab Financial Services Company (E.C.) (Manama, Bahrain)

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### INTERNATIONAL DIVISION

#### Branches

- Grand Cayman, USA
- Milan, Italy
- New York, USA
- Singapore

#### Representative Offices

- Houston, USA
- Los Angeles, USA
- Rome, Italy

#### Subsidiaries

- ABC Banque Internationale de Monaco S.A.M. (Monte Carlo, Monaco)
- ABC Finanziaria S.p.A. (Rome, Italy)
- ABC (IT) Services Ltd. (London, UK)
- Arab Banking Corporation - Daus & Co GmbH (Frankfurt, Germany)
- ABC International Bank plc (London, UK)

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### INVESTMENT GROUP

Banco ABC Brasil S.A. (Sao Paulo, Brazil)  
Banco Atlantico S.A.(Madrid, Spain)  
International Bank of Asia Limited (Hong Kong)

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### UNDER ESTABLISHMENT

ABC Securities (Egypt)